

# **Board of Governors of the Federal Reserve System**

## **AUDIT OF THE BOARD'S SECURITY- RELATED DIRECTED PROCUREMENTS**



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**OFFICE OF INSPECTOR GENERAL**

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BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

September 19, 2002

The Honorable Mark W. Olson  
Chairman, Committee on Board Affairs  
Board of Governors of the Federal Reserve System  
Washington, DC 20551

Dear Governor Olson:

We are pleased to present our *Report on the Audit of the Board's Security-Related Directed Procurements* (A0203). In response to the events of September 11, 2001, the Board of Governors of the Federal Reserve System (Board) made a series of thirty-two purchases to enhance security at the Eccles, Martin, and New York Avenue buildings. These purchases, which totaled about \$3.7 million, were accomplished as directed procurements; an exception to required competitive procurement procedures allowed by Board policy under certain unique purchase conditions. We undertook this review in response to a verbal request from the former Administrative Governor who wanted assurance that he had appropriately exercised his delegated authority to approve these directed procurements.

Our objectives were to (1) determine if the Board complied with its acquisition policies and used the directed procurement approach appropriately, (2) determine if any changes are needed in the Board's policies or procedures for authorizing and conducting directed procurements, and (3) assess whether the Board should apply competitive bidding procedures to any of the ongoing contracts now that the period of immediate emergency has passed.

Overall, we conclude that the former Administrative Governor appropriately exercised his delegated approval authority when he approved these directed procurements. In addition, Management Division officials and Procurement Section staff were very successful in expediting numerous procurements to acquire security-related items and services to enhance the protection of Board employees. We found that these procurements were approved and undertaken consistent with the Board's "Acquisition Policy."

Notwithstanding these conclusions, our report contains three recommendations to the Director of the Management Division. First, we believe that the Board would benefit by establishing written procedures for unique purchase conditions to supplement its current policy guidance. Such procedures would help guide the level of effort needed during initial research of the price and terms of unique purchases, and establish the need for reevaluation of service contracts awarded under the directed procurement authority following the exigency period.

Second, we believe that there should be greater Legal Division (Legal) involvement when unique purchase conditions are invoked. This would have helped to reduce the performance and legal risks that the Board assumed for some of the procurements we reviewed. Finally, we found that documentation was not sufficient to support the payment of invoices in four fixed-unit-price service contracts, and we have questioned the \$1,341,195.90 paid under these four contracts as unsupported costs. We believe that additional procedures are needed to strengthen controls over payments for these types of contracts.

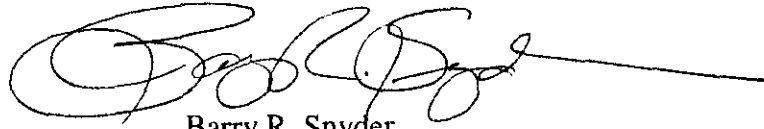
We provided our report to the Director of the Management Division for comment. In his response, included as appendix 1, the director stated that the overall report and its three recommendations provides some good ideas for future periods of heightened procurement activity and some reminders which will be of benefit with even routine contracts. The director concurred with recommendation 1 and plans to establish and implement written procedures for procurements made under unique-purchase conditions and more formally document acquisition work resulting from directed procurements.

The director did not concur with our recommendation that Legal should review all procurements under unique purchase conditions because he had concerns about the value and timeliness of Legal's review in these cases, and with procurements in general. The director cited the need for his division to work first with Legal to define and document Legal's role in the procurement process. We agree that Legal's role in the procurement process should be better defined. We believe, however, that Legal needs to make an assessment of directed procurements prior to award to determine potential risks and how they might be addressed in the terms and conditions of the initial contract. Such an initial assessment would be valuable even with small dollar procurements because competition, privacy, liability, or payment issues can arise.

In responding to our third recommendation, the director agreed to provide additional guidance to COTRs regarding their responsibilities. However, for the four vendors whose costs we believe were not adequately supported, the director stated that documentation and management controls were adequate for the COTRs to know how many hours should have been provided, whether they were all provided, and whether the invoices correctly represented the time provided. The director specifically stated that controls were adequate for the three security service vendors because the contracts, "... required staffing at particular levels in specific locations in the company of Board staff." As detailed in our explanation for this recommendation, we found that the COTRs for these four contracts did not use vendor time records or other verification processes to ensure that the Board only paid for actual time worked. Specifically, the three security service vendors did not submit copies of time sheets and Board staff who worked with vendor personnel were not required to report daily duty station absences to the COTR. Consequently, the COTRs did not have supporting documentation from the vendor or exception time reports to compare against the monthly summary invoices submitted by the vendors.

We have provided copies of this report to selected Board managers and staff. The report will be added to our public web site and will be summarized in our next semiannual report to the Congress. Please contact me if you would like to discuss the audit report or any related issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry R. Snyder", with a long horizontal line extending to the right.

Barry R. Snyder  
Inspector General

cc: Governor Roger W. Ferguson, Jr.  
Governor Edward M. Gramlich  
Governor Donald L. Kohn

# **Board of Governors of the Federal Reserve System**

## **AUDIT OF THE BOARD'S SECURITY- RELATED DIRECTED PROCUREMENTS**



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**OFFICE OF INSPECTOR GENERAL**

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# BACKGROUND

The Board of Governors of the Federal Reserve System (Board) has an “Acquisition Policy” (policy) that provides general guidance in the acquisition of supplies, services, or construction. The policy requires that competitive acquisition methods, such as formal bid and negotiated procurement procedures, be used to the maximum extent practicable so that the Board acquires the highest quality goods and services within the time required and at the best possible value.<sup>1</sup> The policy permits use of unique-purchase procedures as an exception to normal competitive procedures. Unique-purchase procedures may be used only when justified in writing and when formal bid and negotiated procurement procedures do not satisfy the acquisition requirements. The policy defines the following circumstances for using unique-purchase procedures:

- **Sole source** - Supplies, services, or construction are available from only one vendor, and no other type of property or service will satisfy the Board’s requirements.
- **Exigency** - The need for the property or service is of such an unusual and compelling urgency that the Board would be demonstrably and significantly injured unless it could limit the number of vendors from which it solicited bids or proposals.
- **Directed** - The Board or the Administrative Governor determines that it is necessary to use other than normal competitive procedures for an individual acquisition.

The policy specifies acquisition review and administration responsibilities of the Procurement Section, Legal Division (Legal), and the division requesting the goods or services. For example, Legal must review any type of contract with an estimated value of \$250,000 or more.<sup>2</sup> Legal evaluates contracts for three types of potential risk:

- **Procurement Risk** - The risk of a legal challenge to the contract from an unsuccessful bidder.
- **Performance Risk** - The extent to which the contract is drafted to ensure to the greatest extent possible that the contractor will perform according to contract terms or that the Board will have adequate recourse for nonperformance.
- **General Risk** - The risk associated with any other legal issues raised by the contract that may affect the Board.

The policy authorizes the Contracting Officer to designate a Contracting Officer’s technical representative (COTR), typically a representative of the requesting division, to perform specific contract administration functions. The COTR’s responsibilities include keeping the Contracting Officer apprised of the status of the contract and performing necessary inspections and

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<sup>1</sup> Two other types of competitive procedures are “simplified purchase procedures” for acquisitions greater than \$2,500 and less than \$25,000 and “micropurchase procedures” for the purchase of goods of \$2,500 or less.

<sup>2</sup> The policy uses the term “contract” to mean all types of agreements, regardless of form, for the acquisition of supplies, services, or construction.

acceptance of supplies or services delivered. The COTR is also responsible for approving invoices for payment.

In response to the events of September 11, 2001, and the subsequent anthrax threat, the Board made a series of thirty-two expenditures to enhance security at the Eccles, Martin, and New York Avenue buildings. These expenditures consisted of fifteen contracts for security-related equipment, eight contracts to modify and enhance buildings, and nine contracts for security-related services. Because of the need to respond quickly to potential terrorist threats, these procurements were undertaken as directed procurements. These thirty-two contracts with twenty-five vendors were initiated during the fourth quarter of 2001, and totaled approximately \$3.7 million as of March 15, 2002.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

We conducted this audit in response to a verbal request to the Inspector General from the former Administrative Governor, who wanted assurance that he had appropriately exercised his delegated approval authority for these directed procurements. Our objectives were to

- determine if the Board complied with its acquisition policy and used the directed procurement approach appropriately,
- determine if any changes are needed in the Board's policies or procedures for authorizing and conducting directed procurements, and
- assess whether the Board should apply competitive bidding procedures to any of the ongoing contracts now that the period of immediate emergency has passed.

To accomplish these objectives, we reviewed records for the thirty-two contracts associated with the items listed in the Contracting Officer's memo requesting approval as directed procurements, and compared actions taken to policy guidance. We conducted interviews with the former Administrative Governor, and the Board's Contracting Officer, procurement manager, purchasing agents, contract specialists, and Legal staff to gain an understanding of the process and procedures used to initiate the contracts. In addition, we interviewed accounts payable staff and the COTRs for four fixed-unit-price contracts to gain an understanding of the process used to pay vendor invoices. We did not review the entire procurement process or evaluate the justification for each procurement. Our fieldwork was conducted between March 4 and May 7, 2002, and was performed in accordance with generally accepted government auditing standards.

## **FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

Following the events of September 11, 2001, and the subsequent anthrax threat, enhancing the physical security of the Board's facilities increased in priority given the importance of continued



operations of the nation's central bank and the proximity of the Board's buildings to other potential terrorists targets such as the Department of State and the White House. Use of the directed procurement approach enabled the Board to quickly acquire security-related goods and services that enhanced the protection of Board's employees and buildings. We conclude that the former Administrative Governor appropriately approved these acquisitions as directed procurements based on management's assessment that there was not enough time to use formal bid and negotiated procurement procedures and still meet acquisition requirements. According to Procurement Section staff, formal and bid negotiating procedures require at least two to three months to process. We found that contracts for goods and services for directed procurements were issued in less than that amount of time. We also found that a need for each procurement had been established prior to procuring the goods and services, that each procurement had been approved, and that Procurement Section staff informally sought and documented competitive pricing as time permitted.

Notwithstanding these positive results, we believe that the Board would benefit by having written procedures for unique purchase conditions to supplement its current policy guidance. Such procedures would help guide the amount of research needed on price and terms and establish the need to reevaluate price and terms following the exigency period for service contracts. We also found that, consistent with current policy, Legal evaluated the risk associated with one of the thirty-two contracts; but in our judgement, the additional legal and performance risk associated with unique purchase conditions should have resulted in a review of additional contracts. Finally, we found that documentation was not sufficient to support the payment of invoices in four fixed-unit-price service contracts. As a result, we have classified the \$1,341,195.90 paid under these four contracts to be unsupported costs.<sup>3</sup>

The following three recommendations should help ensure that the Board effectively manages the risks and costs of directed procurements or other unique acquisitions.

**1. We recommend that the Director of the Management Division establish and implement written procedures for procurements undertaken under unique-purchase conditions.**

The Administrative Governor's decision to use the directed procurement approach was made based on information provided during meetings with an ad hoc response team that included senior Board staff, Procurement Section staff, and technical experts within the Board. The response team identified specific improvements needed to enhance security and safety following the events of September 11, 2001, and subsequent anthrax threat. The response team then provided verbal direction to the Procurement Section staff, who initiated actions to acquire the items for the Board on the best terms possible.

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<sup>3</sup> The Inspector General Act defines the term "unsupported cost" to mean a cost that is questioned by the Office of Inspector General (OIG) because the OIG found that, at the time of the audit, such cost is not supported by adequate documentation. When an OIG reports questioned cost, management is to evaluate the OIG's findings and recommendations, determine actions necessary to respond, and issue a final decision as to whether the questioned cost should be disallowed or allowed. A disallowed cost is a questioned cost that management, agrees should not be charged to the government.

During our interviews and review of the contract files, we noted that staff obtained price quotations from different vendors, performed follow up on pricing schedules, addressed performance issues, and performed procurement research for the purchase of items new to the Board. However, the level of effort varied among the Procurement Section staff, in part based on the time available, the nature of the item or service, and the limited availability of qualified vendors. We believe written procedures for conducting procurements under unique conditions could have helped ensure that efforts to research prices and terms of contracts were applied routinely and were consistently documented. For example, such procedures could include a check as to whether an item was available on the General Services Administration (GSA) schedule. We noted that the Board initially paid \$11,600 more than the GSA schedule price to purchase anthrax detection machines because the contract specialist was not initially aware that the item was on the GSA schedule. Subsequent actions initiated by the contract specialist resulted in the vendor refunding the overpayment six months later.

We believe that written procedures also should include a process for obtaining competitive bids for services where the need extends beyond the exigency period. Such procedures recognize that in the effort to acquire services quickly, the Board may not get the most competitive price or may pay for services that are different from what is subsequently considered necessary. We noted, for example, that the Board determined that there was a limited number of vendors that could immediately provide a needed security service and that the price offered by the available vendor was significantly more than what a nearby federal agency was paying to the same vendor. We believe that a procedural requirement would have prompted the Board to formally compete the requirements for this service following the initial performance period.

We believe that the Director of the Management Division should establish and implement written procedures suitable for initiating contracts under unique-procurement conditions to supplement the “Acquisition Policy” and *Procurement Manual for Technical Personnel*. At a minimum, these procedures should include requirements to research the existence of government contracts and identify the cost paid by other agencies for similar goods and services and to document the results of these efforts. Procedures should require that the response team estimate the length of the emergency period and require a reevaluation of service agreements to determine whether the quantity and quality of services are still warranted and whether the contracts should be competed. When completed, the procedures should be available to members of the response team and should also be included or referenced in the Board’s continuity of operations plan.

- 2. We recommend that the Director of the Management Division, in coordination with the General Counsel, revise the Board’s “Acquisition Policy” to require Legal review of all procurements implemented under unique-purchase conditions.**

The Legal Services Section, which carries out Legal’s responsibility for procurement review, had limited involvement in the directed procurements we reviewed. Specifically, the section’s staff was not part of the response team and was not aware of the scope of procurements to be undertaken as directed procurements. Section staff said that they reviewed one of the thirty-two contracts, and that they were involved in this contract because the Board needed to address some potential liability and indemnification issues that were unique to the contract.

Without a sufficient legal review, general risk liabilities and contract performance risk to the Board may be overlooked because of the speed in which contracts must be initiated under any of the unique-purchase conditions. For example, an effective legal review could have identified and helped to mitigate performance risks related to contract and statement of work ambiguities that resulted in several contract modifications. These modifications extended the performance period several months beyond the immediate threat period, increased the scope of work performed, and increased the number of hours per day of service. The Board took on additional vendor performance risks for this and two other contracts because the standard purchase order used to implement the procurements did not call for the submission of documentation sufficient to support payment. (These fixed-unit-price contracts are discussed further in recommendation 3).

In our judgment, procurement risks depend more on the type of goods and services being acquired and the contracting method used rather than solely on the dollar value of the procurement; which, for service contracts in particular, may be difficult to initially estimate. Only one of the procurements approved by the Administrative Governor was estimated to exceed the \$250,000 threshold for legal review, although three additional procurements ultimately exceeded this threshold either as a result of additional requirements or performance period extensions. We believe that the Director of the Management Division should require that all contracts initiated under unique-purchase conditions be reviewed by Legal prior to award.

- 3. We recommend that the Director of the Management Division strengthen the controls over payments for fixed-unit-price service contracts by requiring (a) vendors to submit additional documentation to support invoice amounts, (b) COTRs to verify the accuracy of the invoices using the supporting documentation submitted by the vendors, and (c) COTRs to establish an appropriate inspection or verification system.**

Of the thirty-two contracts we reviewed, four were fixed-unit-price contracts requiring the Board to pay a specified hourly rate for the actual time worked by the contractors' personnel who provided various security services. This type of contract differs from a typical firm fixed price contract where payments are based on completed work and deliverables, and not necessarily on the specific number of hours worked. Documentation requirements and COTR verification of vendor invoices need to be more rigorous for fixed-unit-price contracts to ensure that the Board is paying only for time actually worked.

The Board's standard procurement document language requires vendors to submit invoices in duplicate, listing specific information regarding number of items, description of goods or services, and prices. The COTR is responsible for performing necessary inspections, accepting supplies or services delivered, and approving invoices for payment. In our judgment, the vendor documentation reviewed and approved for payment by the COTRs was not sufficient to support payments of \$1,341,195.90 that the Board made to the four vendors for thirty invoices submitted between September 2001 and March 2002. We have provided details related to these payments to the Board's Contracting Officer.

Specifically, we found that one of the four-fixed-unit price contracts was initiated as a formal contractual agreement. The terms of the contract clearly defined the services the Board needed

and required the contractor to maintain duty logs, that would be available for the Board's inspection and reflect the actual time spent on the job by the contractor's personnel. In addition, the contract required personnel to log their arrival and departure with Board security personnel and for the COTR to use this log to compare to the labor hours reported as having been provided by the vendor and to make any appropriate adjustments to the vendor's invoice. Instead of following these procedures, the COTR used daily lists of contractor personnel assignments to verify the accuracy of invoices. The lists contained only the names of the personnel assigned to work that day, and did not contain a signed time-in, time-out record as was required by the contract.

The Board used purchase orders to execute the three remaining fixed-unit-price type service contracts. Purchase orders do not require vendors to submit or maintain timesheets that would support actual hours worked. The vendors' invoices we inspected typically presented a summary of total hours for a billing period by each group of employees billed at a particular hourly rate. We met with the COTRs assigned to these three contracts to obtain an understanding of their invoice approval process and found variations in the extent and methods for conducting invoice reviews and verifications. The COTR assigned to two of the contracts checked invoices for mathematical correctness and for compliance with contract terms. We noted, for example, that the COTR adjusted four invoices downward to correct vendor errors in calculating the total number of hours and to remove inappropriately charged travel expenses. The adjustments totaled \$6,232. The COTR said that he was not aware of the information needed to support expenditures under fixed-unit-price contracts or the types of records that should be maintained to verify or corroborate the accuracy of invoices. Another COTR mentioned that he periodically obtains timesheets from the contractor's on-site personnel for his own records, but does not use the timesheets during the invoice approval process.

Although the Board is not bound by the Federal Acquisition Regulations (FAR), it has incorporated key aspects of the FAR into its Acquisition Policy by emphasizing best value and competition. We found that the FAR (48 CFR 52.232-7 (2002)) provides guidance regarding proper documentation for payments under time-and-materials and labor-hour contracts and states, "The Contractor shall substantiate vouchers by evidence of actual payment and by individual daily job timecards, or other substantiation approved by the Contracting Officer." We believe that the Director of the Management Division should incorporate such guidance into the Board's "Acquisition Policy" for vendors awarded fixed-unit-price contracts and require documentation such as time sheets or other records to support the hours billed. In addition, we believe that COTRs for such contracts should be instructed to develop and implement verification processes that would allow them to ensure that the Board is paying only for actual hours worked. For example, a process of logging the arrivals and departures of contractor personnel, as contained in the one formal contract we reviewed, would provide such support, if administered effectively.

## ANALYSIS OF COMMENTS

We provided a draft copy of our report to the Director of the Management Division for his review and comment. In his response, included as appendix 1, the director states that the overall report and its three recommendations provides some good ideas for future periods of heightened procurement activity and some reminders which will be of benefit with even routine contracts. While the director plans to establish and implement written procedures for procurements made under unique-purchase conditions and more formally document acquisition work resulting from directed procurements (recommendation 1), the director did not concur with our second recommendation, and only partially concurred with the third.

Specifically, the director did not concur with our second recommendation to revise the "Acquisition Policy" to require a Legal's review of all procurements implemented under unique-purchase conditions. The director questioned the value and need to review all directed procurements, particularly small dollar items. He also cited the need for his division to first work with Legal to define and document Legal's role in procurement reviews, before deciding upon the benefits of Legal's reviews of directed procurements. We agree with the director that Legal's role in procurement reviews should be defined and documented. As we stated in our report, we believe Legal should make an assessment as to whether there are any risks to the Board prior to contract award. We believe such an assessment is valuable because even small dollar procurements might raise competition, privacy, liability, or payment issues that should be addressed in the terms and conditions of the contract.

The director concurs in part with our third recommendation to strengthen the controls over payments for fixed-unit-price service contracts. The director plans to issue additional guidance to COTRs reminding them of their responsibilities but disagreed with our specific recommended actions for additional payment documentation and invoice verification for fixed-unit-price contracts. The director states that for the four vendors where we asserted unsupported costs, documentation and management controls were adequate for the COTRs to know how many hours should have been provided, whether they were all provided, and whether the invoices correctly represented the time provided. The director specifically states that controls were adequate for three security service vendors because the contracts "... required staffing at particular levels in specific locations in the company of Board staff." We disagree.

As detailed in our report, the COTRs for the four contracts did not use vendor time records or other verification processes to ensure that the Board only paid for actual time worked. Specifically, the three security service vendors did not submit copies of time sheets and Board staff who worked with vendor personnel were not required to report daily duty station absences to the COTR. Consequently, the COTRs did not have supporting documentation from the vendor or exception time reports to compare against the monthly summary invoices submitted by the vendors.



## **APPENDIXES**

## Appendix 1 – Division's Comments



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
MANAGEMENT DIVISION

DATE: August 26, 2002  
TO: Barry Snyder  
FROM: Bill Jones *[Signature]*  
SUBJECT: Report on the Audit of the Board's Security-Related Directed Procurements

I am pleased to have the opportunity to comment on the Report on the Audit of the Board's Security-Related Directed Procurements.

The weeks following the terrorist attacks of September 11, 2001 and the subsequent anthrax attacks the following month was a difficult period for the Board. On-going efforts to improve safety and security were intensified, existing project schedules were accelerated, and numerous new projects were developed and implemented. As your report states, the Procurement Program played a major role in meeting the new requirements.

The overall report with its three recommendations provides some good ideas for future periods of heightened activity and some reminders which will be of benefit with even routine contracts. Each of the recommendations is discussed below.

**1. We recommend that the Director of the Management Division establish and implement written procedures for procurements undertaken with unique-purchase conditions.**

Concur. Directed procurements, the object of this audit, are a form of unique purchase, the term used in the recommendation. From January 1, 1998, until September 11, 2001, there were, at most, three directed procurements. There were 32 in the last three months of 2001. Procedures to more formally document acquisition work resulting from directed procurements will be strengthened in case such a need occurs again.

While previously there was no requirement to perform the tasks suggested in your report, as a matter of routine we followed several of the suggested procedures. For example, we obtained price quotes from competing vendors and used the GSA schedules where possible, and took other steps to ensure effective and efficient procurements. The new procedures will formally document these steps that are routinely taken. The procedures also will include a requirement to review the results of a directed procurement when the emergency that led to the procurement subsides. At that time, we will consider whether there is a continuing need for the product or service and whether a competitive acquisition would be appropriate for continued purchases.



## Appendix 1 – Division's Comments (con't)

We note that the inference in your report that Procurement may have been unaware that the price paid by the Board for similar services provided by the same contractor to a nearby agency was significantly higher is incorrect. The two factors that led to the higher price were the greatly increased demand for the services in the post-September 11 environment and the much smaller size of the Board's contract. The price we paid in the directed procurement was competitive with the prices offered by other vendors we contacted at the time.

**2. We recommend that the Director of the Management Division, in coordination with the General Counsel, revise the Board's Acquisition Policy to require Legal review of all procurements implemented under unique-purchase conditions.**

Nonconcur. In the circumstances reviewed, legal review was sought in the one instance where a significant legal issue was raised. Many of the 32 directed procurements were for rapid purchases of relatively inexpensive equipment or support; 13 were for less than \$25,000 and another three were for less than \$36,000. It is not clear that review by the Legal Division of these small procurements would be worthwhile. While it may be that Legal review at a level below the current \$250,000 threshold would be appropriate, the level at which such a review would occur remains to be negotiated between the Management Division and the Legal Division.

Your report suggests that the Legal Division may consider procurement risk, performance risk, and general risk when reviewing contracts. In fact, the objective of the Legal review is not clearly defined at present. Discussions with the Legal Division suggest that resolution of this issue is key to the effectiveness of such reviews, and we have agreed to work with Legal to define and document their role in procurement reviews. We view this as an important first step that must be taken before a decision can be made as to which directed procurements could benefit from Legal review.

Your report indicates that, in your view, "...an effective legal review could have identified and helped to mitigate performance risks related to contract and statement of work ambiguities that resulted in several contract modifications." Because most of the contract modifications resulted from changes in user requirements that developed over time and were unknown to Procurement at the time of acquisition (and would have been unknown to Legal, as well), we do not believe that a review by Legal would have identified these potential contract modifications.

**3. We recommend that the Director of the Management Division strengthen the controls over payments for fixed-unit-price service contracts by requiring (a) vendors to submit additional documentation to support invoice amounts, (b) COTRs to verify the accuracy of the invoices using the supporting documentation submitted by the vendors, and (c) COTRs to establish an appropriate inspection or verification system.**

Concur in part. We agree that it would be appropriate to remind COTRs of their contract management responsibilities (and the limitations of their authority to modify contract terms and conditions). We plan to distribute to all COTRs a memorandum

## Appendix 1 – Division's Comments (con't)

reminding them of their responsibilities and a handbook that describes in some detail the role of the COTR.

As to the specifics of the recommendation, we do not agree that vendors of fixed-unit-price service contracts need to submit additional documentation to support invoice amounts. The amount of documentation needed should be determined at the time the contract is prepared based on the service being provided and the management controls in place to monitor the service. For example, among the four vendors whose invoices are questioned in your report, three were providing security services that required staffing at particular levels in specific locations in the company of Board staff. Unanticipated absences would be obvious in these situations and the submission of time sheets as suggested in the report would have been redundant. The COTR in these cases knew how many hours should have been provided, whether they were all provided, and whether the invoices correctly represented the time provided.

COTRs are already instructed to verify the accuracy of invoices. If the COTR does not have adequate documentation or other information to do so, we would, of course, request additional information from the vendor. We believe that implicit in the requirement to verify the accuracy of invoices is the necessity to have an appropriate verification system. Such a system may differ depending on the nature of the contract, and establishing a "one size fits all" approach to verification could be counterproductive.

cc: Steve Malphrus  
Steve Clark  
Steve Siciliano  
Elaine Boutilier

## **Appendix 2 – Principal Contributors to this Report**

Kyle Brown, Senior Auditor and Auditor-in-Charge

Silvia Vizcarra, Auditor

Paul Zacharias, Project Manager